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1972 ANNUAL REPORT  
**Trans-Canada Resources** LTD



## **DIRECTORS**

Herbert C. Andreae, Toronto, Ontario  
Financial Consultant

Alex G. Bailey, Calgary, Alberta  
Oil Executive and Consultant

Grant A. Bloomer, Vancouver, British Columbia  
Businessman

Roger Kee Cheng, Vancouver, British Columbia  
Vice President, C. T. Takahashi & Co. Ltd.

William D. Hans, Calgary, Alberta  
President, Trans-Canada Resources Ltd.

Henry E. Hutcheon, Vancouver, British Columbia  
Barrister and Solicitor, Guild, Yule & Company

Bruce A. Macdonald, Calgary, Alberta  
Executive Vice President, Trans-Canada Resources Ltd.

W. John Rae, Toronto, Ontario  
Director and General Manager  
Citicorp Venture Capital Canada Ltd.

Gerald J. Risby, Toronto, Ontario  
Vice President-Treasurer  
Anglo American Corporation of Canada Limited

## **OFFICERS**

W. D. Hans, President

B. A. Macdonald, Executive Vice-President

G. LeRoy Dakin, Vice-President, Finance and Treasurer

W. J. Sullivan, Secretary

J. E. LeFevre, Assistant Treasurer

## **OPERATING MANAGEMENT**

P. E. Sturek, General Manager, International Drilling  
Fluids Domestic Division

A. R. Wilson, General Manager, Oilind Safety  
Engineering Division

G. R. MacDonald, General Manager, Dymac Equipment Division

M. C. MacDonald, General Manager, International Drilling  
Fluids Overseas Division

## TO THE SHAREHOLDERS

The past fiscal year has been disappointing from the viewpoint of operational success. Due to an extreme lack of funds the Company curtailed many of its expansionary programs and management concentrated its efforts on consolidating the Company's position and developing plans for the future.

While sales increased by \$2,316,946, the bulk of the increase was comprised of:

1. Sales made overseas where the high costs of starting a new business resulted in losses in the first year of operation.
2. Sales for delivery into the Arctic regions of Canada where the system of marketing results in low profit margins.

The Company showed a loss for the year, before special write-off and recovery of deferred income taxes, of \$243,008 (9c per share). Contributing to this loss were charges to earnings of \$75,426 representing previously capitalized research and development which was determined not to have a future benefit and amortization of \$49,258 on remaining capitalized cost of R & D, and Dymac and I.D.F. overseas start-up costs. Additionally, a considerably larger portion of administration expense was charged to earnings rather than capitalized to properties. Management changes and the move of the Company's head office to Calgary contributed to additional administrative expense for this year. Cash flow for the year was \$37,804 (1.4c per share). The decision of the Company to curtail active participation in the mining business resulted in a special write-off of mineral properties of \$1,483,945 (56c per share).

Your management feels that by devoting considerable effort toward clearly defining the direction the Company should follow an investment has been made for the future of the Company. We are now concentrating on implementing our plans and are enthusiastic about the opportunities created for growth development.

Significant steps have been taken to establish the solid foundations required for future growth. Among these, with some having been completed subsequent to the year-end, are the:

1. Re-organization of the management of the Company and acquisition of new executive personnel

with personal strengths needed to complement those of existing management.

2. Arranging of long-term financing by completing the sale of \$1,900,000 of Series "A" convertible debentures.
3. Acquisition of the Oilind Group of Companies. This acquisition complements our division now serving the petroleum industry and is international in scope.
4. Securing of a significant position in the international market place with the expansion of International Drilling Fluids into the European theatre and specific sectors of the U.S.A.
5. Suspension of active participation in the mining industry.
6. Development of a more attractive position with regard to our land bank of oil and gas properties.

The management of your Company believes that we are now in a better position to take advantage of our strengths. The expansion of International Drilling Fluids and the acquisition of Oilind, as well as a more active role in oil and gas exploration and development, is expected to provide improved operating statements for 1973. The efforts of management will be directed toward developing a sound, profitable organization based on both petroleum exploration and services to the natural resource industry.

The Company takes pleasure in welcoming to the Board of Directors Mr. John Rae, Mr. Herbert Andreae and Mr. Gerald Risby. They are well qualified to represent the shareholders' interest in the Company. The Company also wishes to thank retiring directors, Mr. Les Croteau, Mr. Robert Zokol, Mr. Clinton Snell and Mr. Harry Frogley. These gentlemen have served your Company since its inception and have given their best efforts for the benefit of the shareholders.

On behalf of the board,



W. D. Hans,  
President

March 21, 1973

## NATURAL RESOURCE DIVISION

### Oil and Gas Exploration



The Company participated in thirteen exploratory tests during the past year, resulting in three gas wells, nine tests dry and abandoned and one drilling at year end. The most significant test to the Company was the Quasar et al Grizzly A-74-G gas discovery which established the presence of large reserves of natural gas in the Monkman Pass area of Northeastern British Columbia. This discovery well was drilled on lands under farmout from a group which includes Trans-Canada, with the group retaining a royalty interest. Quasar Petroleum is expected to actively develop the area in the coming year and further success will increase your company's reserves and share of future revenues.

The Company made a significant land acquisition in the spring of 1972 when it acquired a five percent working interest in United Kingdom Petroleum Production Licence Block 3/7 (gross 55,000 acres) located in the northern portion of the U.K. North Sea, some eighty miles east of the Shetland Islands. A seismograph program was shot in the block subsequent to acquisition and additional seismic is planned.

Additionally, the Company, in pursuing a policy of acquiring prospective acreage in the frontier exploration areas of the world, participated in seismograph purchases and programs in such diverse areas as Northern Alberta, Hudson Strait, Dutch North Sea and Australia. It is anticipated that these programs will result in acreage acquisitions during the coming year. Other emphasis during 1973 will be on acquiring additional oil production and reserves by purchase and becoming more active in gas exploration in the shallow drilling areas of Central Alberta.

### Mineral Exploration

While the Company has curtailed its active participation in mineral exploration, it continued to hold certain of its mineral properties during the year with minimum expenditures. The Company's interest at Sito Lake, Saskatchewan was reduced by farmout; while the operators uncovered encouraging mineralization, no significant ore body was found. The Company will continue with a passive policy toward mineral exploration in the coming year with expenditures continuing at a low level.

## Oil and Gas Production

Company emphasis on oil production during the year was placed on upgrading field facilities and we were successful in increasing production by twenty percent to a net 100,000 barrels from the existing producing properties.

### Mining Properties

As at October 31, 1972

| Area                         | Acres         |               |
|------------------------------|---------------|---------------|
|                              | Gross         | Net           |
| <u>SASKATCHEWAN</u>          |               |               |
| Kisiwak Lake .....           | 2,428         | 1,214         |
| Donaldson Lake .....         | 480           | 480           |
| Sito Lake .....              | 68,780        | 4,711         |
|                              | <u>71,688</u> | <u>6,405</u>  |
| <u>NORTHWEST TERRITORIES</u> |               |               |
| McGregor Lake .....          | 2,324         | 1,743         |
| Vaillant Lake .....          | 1,136         | 852           |
| West McGregor Lake .....     | 1,859         | 1,208         |
| Bathurst Inlet .....         | 1,239         | 805           |
| Hunter Bay .....             | 6,611         | 4,297         |
| Upper Ross Lake .....        | 2,583         | 1,679         |
|                              | <u>15,752</u> | <u>10,584</u> |
| GRAND TOTALS .....           | <u>87,440</u> | <u>16,989</u> |

### Petroleum and Natural Gas Holdings

As at October 31, 1972

| Area                    | Acres            |                |
|-------------------------|------------------|----------------|
|                         | Gross            | Net            |
| <u>ALBERTA</u>          |                  |                |
| Drumheller .....        | 1,600            | 1,600          |
| Golden Spike .....      | 640              | 320            |
| Enchant .....           | 23,194           | 1,609          |
| Edson .....             | 3,200            | 96             |
| Berland .....           | 1,280            | 640            |
| Bindloss .....          | 3,840            | 1,680          |
| Wander .....            | 47,360           | 2,842          |
| Halkirk .....           | 320              | 320            |
|                         | <u>81,434</u>    | <u>9,107</u>   |
| <u>SASKATCHEWAN</u>     |                  |                |
| Parkman .....           | 1,200            | 259            |
| Midale .....            | 640              | 96             |
| Cantal .....            | 640              | 76             |
| Avon Hill .....         | 1,920            | 960            |
| Doddsland .....         | 1,840            | 920            |
| Buffalo Coulee .....    | 640              | 320            |
| Hartavan .....          | 640              | 114            |
| Freestone .....         | 480              | 120            |
|                         | <u>8,000</u>     | <u>2,865</u>   |
| <u>OTHER CANADA</u>     |                  |                |
| Labrador Offshore ..... | 1,646,521        | —              |
| Coleville, N.W.T. ....  | 664,428          | 16,611         |
| Ft. Norman, N.W.T. .... | 570,591          | —              |
| Old Crow, N.W.T. ....   | 366,083          | —              |
| Melville Sound .....    | 1,845,262        | 110,716        |
| Monkman, B.C. ....      | 26,504           | —              |
|                         | <u>5,119,389</u> | <u>127,327</u> |
| <u>OVERSEAS</u>         |                  |                |
| U.K. Offshore .....     | 54,000           | 2,700          |
| GRAND TOTALS .....      | <u>5,262,823</u> | <u>141,999</u> |

## ENERGY SERVICE INDUSTRIES DIVISIONS

### **International Drilling Fluids (Canada)**



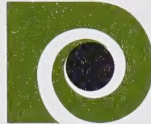
This autonomous division of the Company continues each year to increase its gross sales as drilling in Canada, paced by energy needs, remains at a high level. I.D.F. continues to operate throughout Canada from coast to coast, in all areas of petroleum activity and in all types of drilling, providing the high standard of service and expertise expected of this top Canadian drilling fluid organization.

A major transition during the year and continuing into the future has been necessitated by the expansion into overseas operations. This expansion has required the transfer of some very highly experienced employees but has not adversely affected the domestic operation due to our ability to attract and train excellent new personnel.

### **International Drilling Fluids (Foreign)**

This division was established in the fall of 1971, initially to service the North Sea and adjacent areas, but also to evaluate the service industry potential in other oil exploration areas of the world. Our acceptance into North Sea and European operations has been most gratifying and contracts received during the first year of operation exceeded expectations. While heavy start-up costs precluded profits during this initial year the Company is most enthusiastic over the growth prospects for this division. Although the division's efforts will continue to be concentrated on the vibrant exploration play in the North Sea, we anticipate additional expansion elsewhere in the foreign sphere of operations will result from our studies and program submittals. Also during the past year, as part of the overall company expansion this division has for the first time surveyed additional markets in the United States, servicing one well in the Rocky Mountain area of Utah.

## **Dymac Equipment**



This division was formed during 1971 to expand and diversify the Company's role in the Energy Service Industry. Its function is the sales and rental of equipment to the oil industry from a varied inventory. During 1972, its first full year of operations, the division established a satisfactory sales base for future growth and will continue to make its contribution to Company expansion.

## **Research and Development**

The expansion of the I.D.F. division into world markets has created many challenges for the research division with the problems inherent in servicing drilling rigs operating in new and complicated geological basins. An added concern is the purchase of drilling fluid components from many supply sources, with the resultant need for quality control.

The employees of the division have met this challenge and again proven the intrinsic worth of research to the Company. The addition of the Oilind Group will create new challenges as the Company becomes more involved in solving and treating corrosion problems. Some expansion of this division will be necessary to fully meet these new and diverse problems.

We at Trans-Canada are pleased that this division has been continuously awarded Dominion Government Research Grants to assist in our research programs.

## **EMPLOYEES**

Fifty-seven persons were employed by the Company and its subsidiaries at October 31, 1972, compared with forty-six at the end of the previous year. Staff increases resulted primarily from the expansion of the International Drilling Fluids division into overseas markets.

Employees participate in a comprehensive employee benefits program, which includes an incentive bonus plan, group life and health insurance plans and an income protection plan. The Company constantly reviews this program to ensure that it maintains a competitive position within the industry.

In looking to the challenge of the future our greatest asset is our employees.

## FINANCIAL

Sales for the year increased significantly to \$5,233,919, compared to \$2,916,973 for the previous year. The net loss for the year, including a special write-off of mineral properties of \$1,483,945 totalled \$1,675,953. Cash flow for the year was \$37,804.

The sales increases were achieved by all divisions with the major amount being in the International Drilling Fluids division both in Canada and overseas. The increased sales in Canada were low margin sales of products only for Arctic delivery. Profits were precluded from the sales in overseas markets as start-up costs in the first full year of overseas operations were heavy.

Included as a charge to earnings for the year is a special write-off of mineral properties of \$1,483,945. This resulted from the decision of the Company to curtail active participation in the mining business.

The curtailment of the Company's mining activities and reduced oil exploration for which the Company acted as operator resulted in a considerably larger portion of administrative expenses being charged to earnings rather than capitalized to properties. Additional administrative costs were incurred as a result of management changes and the move of the Company's head office to Calgary.

Earnings have been charged this year with an amount of \$75,426 representing previously capitalized research and development costs which were determined to not have the future benefits originally anticipated. Additionally, amortization of \$22,997 has been made on the remaining capitalized costs. There were no similar charges in the previous year.

Subsequent to the year-end, on January 24th, 1973, the Company sold, at par \$1,900,000 principal amount of its Series "A" Convertible Debentures. The Debentures carry an interest rate of 9% and mature on December 15th, 1977. They may be redeemed without penalty after December 15th, 1975. The Debentures are convertible into Common stock of the Company at a price of \$1.00 per share for the first year, \$1.25 per share for the next two

years and at \$1.50 per share for the final two years. Proceeds received from the issue were used to retire long term bank indebtedness of \$489,000 with the balance going to improve working capital. The bank demand loan and accounts payable were reduced by \$550,000 and \$600,000 respectively, and cash balances increased by \$261,000.

The Company acquired on December 1st, 1972, all the outstanding shares of Oilind Safety Engineering Ltd., Oilind Safety Engineering Inc., Oilind Safety Services Ltd., and Oilind Limited, and 50% of the shares of Oilind Safety Engineering (Int'l) Ltd. The consideration paid consisted of \$200,000 cash and 210,000 treasury shares. The Oilind companies supply safety engineering services and equipment and a corrosion inhibitor to the petroleum industry. Operations are conducted in Canada, United States and Iran.

# CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS (DEFICIT)

|   | Year ended October 31 |                  |
|---|-----------------------|------------------|
|   | 1972                  | 1971             |
| Income:   |                       |                  |
| Sales and other operating revenues .....  | \$ 5,233,919          | \$2,916,973      |
| Gain on sale of assets .....  | 3,842                 | 14,997           |
| Other .....   | 165                   | 23,315           |
|   | <u>5,237,926</u>      | <u>2,955,285</u> |
| Costs and expenses:   |                       |                  |
| Cost of sales, administration and selling expenses (Note 5) .....                             | 5,088,729             | 2,607,021        |
| Interest on long-term debt .....  | 42,654                | 2,370            |
| Other interest .....  | 68,739                | 31,265           |
| Depreciation, depletion and amortization .....  | 205,386               | 93,158           |
| Research and development costs written off .....  | 75,426                | —                |
|   | <u>5,480,934</u>      | <u>2,733,814</u> |
| Earnings (loss) for the year before write-off of<br>mineral properties and income taxes ..... | (243,008)             | 221,471          |
| Mineral properties written off (Note 1 (f)) .....   | 1,483,945             | 140,210          |
| Earnings (loss) before income taxes .....   | (1,726,953)           | 81,261           |
| Deferred income taxes (recovered) .....   | (51,000)              | 42,000           |
| Earnings (loss) for the year .....  | (1,675,953)           | 39,261           |
| Retained earnings at beginning of year .....  | 71,581                | 32,320           |
| Retained earnings (deficit) at end of year .....  | <u>\$ (1,604,372)</u> | <u>\$ 71,581</u> |
| Earnings (loss) per share .....   | <u>(\$.63)</u>        | <u>\$ .02</u>    |

**Trans-Canada Resources** LTD.  
AND SUBSIDIARY COMPANIES

**CONSOLIDATED  
BALANCE SHEET**

**ASSETS**

|  | October 31       |                  |
|--|------------------|------------------|
|  | 1972             | 1971             |
| Current assets:  |                  |                  |
| Cash .....   | \$ 19,087        | \$ 112,304       |
| Accounts receivable .....  | 868,424          | 626,060          |
| Inventories, at lower of cost or net realizable value .....                          | 711,177          | 630,676          |
| Oil and gas leases and properties held for resale, at cost .....                     | —                | 197,240          |
| Prepaid expenses and other .....   | 24,313           | 29,779           |
|  | <u>1,623,001</u> | <u>1,596,059</u> |
| Capital assets, at cost:   |                  |                  |
| Oil, gas and mineral properties including<br>exploration and development costs ..... | 1,482,979        | 2,510,387        |
| Less: Accumulated depletion .....  | 41,856           | 12,503           |
|  | <u>1,441,123</u> | <u>2,497,884</u> |
| Plant and equipment .....  | 1,044,160        | 659,388          |
| Less: Accumulated depreciation .....   | 239,110          | 145,767          |
|  | <u>805,050</u>   | <u>513,621</u>   |
| Land .....   | 5,690            | 5,690            |
|  | <u>2,251,863</u> | <u>3,017,195</u> |
| Other assets and deferred charges:   |                  |                  |
| Deposits and sundry investments .....  | 65,234           | 11,076           |
| Goodwill less amounts amortized .....  | 245,767          | 260,367          |
| Organization and start up costs less amounts amortized (Note 1 (e)) .....            | 116,218          | 142,303          |
| Research and development costs less amounts amortized (Note 1 (d)) .....             | 136,674          | 176,876          |
|  | <u>563,893</u>   | <u>590,622</u>   |

APPROVED ON BEHALF OF THE BOARD:

 Director

 Director

\$4,438,757 \$5,203,876

## LIABILITIES

|   | October 31       |                  |
|---|------------------|------------------|
|   | 1972             | 1971             |
|   |                  | (as restated)    |
| Current liabilities:                              |                  |                  |
| Demand bank loan – secured (Note 2) .....         | \$ 706,000       | \$ 350,000       |
| Accounts payable and accrued liabilities .....    | 1,638,808        | 874,692          |
| Employee bonuses payable (Notes 3 and 8) .....    | 8,103            | 78,333           |
| Current portion of long-term debt .....           | 148,010          | 165,206          |
|   | <u>2,500,921</u> | <u>1,468,231</u> |
| Long-term debt:                                   |                  |                  |
| Bank loans – secured (Note 2) .....               | 560,000          | 567,500          |
| 8% debenture .....                                | –                | 52,620           |
| Employee bonuses payable (Notes 3, 4 and 8) ..... | 70,222           | –                |
| Other secured liabilities .....                   | 8,820            | 106,974          |
|   | <u>639,042</u>   | <u>727,094</u>   |
| Less: Current portion .....                       | 148,010          | 165,206          |
|   | <u>491,032</u>   | <u>561,888</u>   |
| Deferred income taxes (Note 6) .....              | <u>53,000</u>    | <u>104,000</u>   |

## SHAREHOLDERS' EQUITY

|   |                    |                    |
|---|--------------------|--------------------|
| Share capital (Notes 4 and 9):                |                    |                    |
| Authorized –                                  |                    |                    |
| 5,000,000 shares without nominal or par value |                    |                    |
| Issued –                                      |                    |                    |
| 2,643,317 shares .....                        | 2,984,676          | 2,984,676          |
| Contributed surplus .....                     | 13,500             | 13,500             |
| Retained earnings (deficit) .....             | (1,604,372)        | 71,581             |
|   | <u>1,393,804</u>   | <u>3,069,757</u>   |
| Commitments and contingencies (Note 7)        |                    |                    |
|   | <u>\$4,438,757</u> | <u>\$5,203,876</u> |

# CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

|   | Year ended October 31 |                   |
|---|-----------------------|-------------------|
|   | 1972                  | 1971              |
|   |                       | (as restated)     |
| Funds provided by:  |                       |                   |
| Operations –  |                       |                   |
| Earnings (loss) for the year .....  | \$ (1,675,953)        | \$ 39,261         |
| Add (deduct) charges (credits) not affecting<br>working capital in the period –       |                       |                   |
| Depreciation, depletion and amortization .....  | 205,386               | 93,158            |
| Research and development costs written off .....                                      | 75,426                | –                 |
| Deferred income taxes (recovered) .....   | (51,000)              | 42,000            |
| Mineral properties written off .....  | 1,483,945             | 140,210           |
|   | <u>37,804</u>         | <u>314,629</u>    |
| Long-term debt .....  | 210,222               | 690,141           |
| Oil and gas leases and properties held for resale<br>included in current assets ..... | –                     | 197,240           |
| Proceeds from sale of assets .....  | 32,758                | 59,640            |
| Other .....   | 5,732                 | 7,740             |
|   | <u>286,516</u>        | <u>1,269,390</u>  |
| Funds applied to:   |                       |                   |
| Additions to oil, gas and mineral properties .....                                    | 485,712               | 520,185           |
| Additions to plant and equipment .....  | 436,325               | 319,603           |
| Repayment of long-term debt .....   | 281,080               | 165,206           |
| Other assets and deferred charges .....   | 89,148                | 211,371           |
|   | <u>1,292,265</u>      | <u>1,216,365</u>  |
| Increase (decrease) in working capital .....  | (1,005,749)           | 53,025            |
| Working capital at beginning of year .....  | 127,828               | 74,803            |
| Working capital (deficiency) at end of year .....                                     | <u>\$ (877,921)</u>   | <u>\$ 127,828</u> |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. Accounting principles:

(a) The consolidated financial statements include the accounts of the Company and all its subsidiaries. Current assets and current liabilities of foreign subsidiaries were converted to Canadian dollars using the exchange rate at the date of the balance sheet. Other assets and liabilities were converted at the rate in effect at the time the original transactions took place. Revenue and expense items were converted using average rates of exchange throughout the year.

(b) The Company follows the full cost method of accounting for oil and gas operations whereby all costs related to the exploration for and development of oil and gas reserves are capitalized. Costs capitalized include those related to acquisition of petroleum and natural gas rights, geological and geophysical exploration, lease rentals on undeveloped properties, drilling of productive and non-productive wells and applicable overhead expenses. All such costs are depleted on a composite unit-of-production method based on estimated proven reserves of oil and gas.

(c) Depreciation of plant and equipment is provided at rates which are designed to amortize cost over estimated useful life of the assets.

(d) Research and development costs applicable to patents and processes developed by the Company's research and development division are capitalized. Amortization of such costs is being provided over a seven year period. Should certain patents and processes be determined upon annual review not to have the future benefits originally anticipated the applicable costs net of amortization are written off to earnings. Patents and processes shown under capital assets at October 31, 1971 have been reclassified as research and development costs.

(e) Start up costs relating to new areas of operations are being amortized over a five year period.

(f) As the result of a policy decision to curtail active participation in the mining industry the majority of the Company's mining properties were abandoned during the year and a write-off of \$1,483,945 was made.

## 2. Bank loans:

Bank loans at October 31, 1972 are as follows:

|                                   |                  |
|-----------------------------------|------------------|
| Current – payable on demand ..... | <u>\$706,000</u> |
| Long term –                       |                  |
| Term loan #1 .....                | \$400,000        |
| Term loan #2 .....                | <u>160,000</u>   |
|                                   | <u>\$560,000</u> |

The loans, which bear interest at rates from 1% to 1½% above prime rates are secured by a general assignment of accounts receivable, a portion of inventories, certain oil and gas properties and a floating charge debenture in the amount of \$2,000,000. Annual payments required on the loans included under long term total \$140,000.

## 3. Provision for employee bonuses:

The Company entered into contracts with certain employees on January 3, 1970 under which the Company is committed to pay these employees amounts aggregating \$94,000 on January 3 each year for the period 1971 to 1975. The Agreements provide for these payments to be made either in cash or by the issue of notes, at the Company's option. Such notes would bear interest at 3% per annum, would mature 15 years after issue and would be convertible at the holders option, into shares within 60 days of issue at a price related to quoted market price.

## 4. Capital stock:

(a) As at October 31, 1972 options were outstanding on a total of 131,100 shares. The options on 121,500 shares are at a price of 69 cents per share and may be exercised 20% per year commencing September 11, 1973. The options on 9,600 shares are at a price of \$2.50 per share and may be exercised equally over the next two years.

(b) As at October 31, 1972 the Company had reserved a total of 432,371 of its authorized but unissued shares as follows:

(i) 131,100 shares to provide for share options granted to officers and employees

(ii) 210,000 shares to provide for the acquisition of shares in certain companies as set out in Note 9 (a)

(iii) 91,271 shares to provide for conversion privilege under promissory notes issued in January 1973 in payment of employee bonuses (Note 3)

In January 1973 a further 1,900,000 shares were reserved to provide for the conversion privilege under the terms of the Series "A" Convertible Debentures of the Company (Note 9 (b) )

#### **5. Remuneration of directors and officers:**

Remuneration of directors and officers for the year ended October 31, 1972 aggregated \$97,268 (1971 - \$62,447). There were no directors fees paid during the year.

#### **6. Income taxes:**

For income tax purposes the Company claims lease acquisition, exploration and development costs and capital cost allowance (depreciation) in amounts which may vary with those charged to expense in the financial accounts. The Company, in common with many other companies having interests in the oil and gas industry, does not believe that tax allocation in respect of lease acquisition, exploration and development costs is appropriate. Accordingly, no provision has been made for deferred taxes on timing differences involving such costs. Deferred income taxes have been provided on timing differences other than those relating to lease acquisition, exploration and development costs.

For the current year the Company will be claiming for tax purposes less capital cost allowance and other items on which timing differences are recognized than that expensed in the financial accounts. As a result, a recovery of deferred income taxes of \$51,000 has been recorded.

If the tax allocation basis had been followed for timing differences involving lease acquisition and exploration and development costs, the net loss for the year would have been reduced by \$177,000 (income reduced by \$18,000 in 1971). The undepreciated and unclaimed amounts available for income tax purposes exceed the related amounts shown in the accounts by approximately \$300,000 for all timing differences.

#### **7. Commitments and contingencies:**

(a) Office Lease(s): The Company leases certain office space under agreements which require annual

rental payments of \$48,675 and \$8,759 to March 31, 1977 and September 30, 1974 respectively.

(b) Legal Actions: The Company is the defendant in a law suit claiming \$185,000 plus interest and costs. The action is being contested by the Company and a counter-claim has been filed.

#### **8. Restatement of 1971 accounts:**

The employee bonuses payable, shown under long-term debt at October 31, 1971 have been restated as a current liability, as the subsequent payment was made in cash and not by the issue of promissory notes. See Note 3. The source and application of funds statement has been restated accordingly.

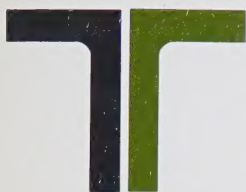
#### **9. Subsequent events:**

(a) In December, 1972 the Company acquired all the outstanding shares in four private companies and 50% of the outstanding shares in another private company for a cash consideration of \$200,000 and the issuance by the Company of 210,000 common shares. The companies acquired supply safety engineering services and equipment and a corrosion inhibiting chemical to the oil industry. Operations are conducted in Canada, United States and Iran. Total sales of all companies for the latest fiscal year were \$643,400 and total assets at book value were \$502,500 and total liabilities were \$302,400.

(b) In January 1973 the Company sold, at par, \$1,900,000 Series "A" Convertible debentures. The debentures bear interest at 9% and mature on December 15, 1977. They may be redeemed without penalty after December 15, 1975. The debentures are convertible into common stock of the Company at a price of \$1.00 per share for the first year, \$1.25 per share for the next two years and at \$1.50 per share for the final two years.

Proceeds were used to repay long term bank loans of \$489,000, to reduce bank demand loans by \$550,000 and accounts payable by approximately \$600,000 with the balance being added to cash.

(c) In January, 1973 the Company undertook to issue, subject to the approval of certain regulatory bodies and an increase in the authorized capital of the Company, 42,000 shares as consideration for an interest in oil and gas properties.



## CORPORATE INFORMATION

### Incorporation

Province of British Columbia

### Head Office

600 - 310 Ninth Avenue S.W.,  
Calgary, Alberta T2P 1K5

### Registered Office

Suite 1680, One Bentall Centre,  
505 Burrard Street,  
Vancouver 1, B.C.

### Registrars and Transfer Agents

Canada Permanent Trust Company  
- Calgary, Alberta  
- Vancouver, B.C.  
- Toronto, Ontario

### Bankers

The Mercantile Bank of Canada,  
Calgary, Alberta

### Auditors

Price Waterhouse & Co.,  
Calgary, Alberta

### Shares Listed

Toronto Stock Exchange  
Vancouver Stock Exchange

### Principal Subsidiaries

Trans-Canada Resources (U.K.) Ltd.  
Trans-Canada Resources (U.S.) Inc.  
International Drilling Fluids (U.K.) Ltd.  
International Drilling Fluids Ltd.

## AUDITORS' REPORT TO THE SHAREHOLDERS OF TRANS-CANADA RESOURCES LTD.

We have examined the consolidated balance sheet of Trans-Canada Resources Ltd. and subsidiary companies as at October 31, 1972 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the

companies as at October 31, 1972 and the results of their operations and source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Price Waterhouse & Co.*

Calgary, Alberta  
January 24, 1973

Chartered Accountants



TRANS-CANADA RESOURCES YEAR OCT. 31 LOSS  
\$1.7 MILLION VS \$39 261 PROFIT

*Corp.*

YEAR AGO EARNINGS PER SHARE EQUAL 2C. GROSS  
INCOME \$5.2 MILLION VS \$3 MILLION.

W. D. HANS PRESIDENT SAID THE COMPANY'S  
DECISION TO CURTAIL ACTIVE PARTICIPATION IN THE  
MINING BUSINESS RESULTED IN A SPECIAL WRITEOFF  
OF MINERAL PROPERTIES OF \$1.5 MILLION.

HOWEVER THE EXPANSION OF THE INTERNATIONAL  
DRILLING FLUIDS DIVISION THE ACQUISITION OF THE  
OILIND GROUP OF COMPANIES AND A MORE ACTIVE  
ROLE IN OIL AND GAS EXPLORATION AND DEVELOPMENT  
SHOULD PROVIDE IMPROVED OPERATING STATEMENTS IN  
1973 HANS ADDED.

21.75 1.00 2.00 3.00 4.00 5.00 6.00 7.00 8.00 9.00 10.00 11.00 12.00 13.00 14.00 15.00 16.00 17.00 18.00 19.00 20.00 21.00 22.00 23.00 24.00 25.00 26.00 27.00 28.00 29.00 30.00 31.00 32.00 33.00 34.00 35.00 36.00 37.00 38.00 39.00 40.00 41.00 42.00 43.00 44.00 45.00 46.00 47.00 48.00 49.00 50.00 51.00 52.00 53.00 54.00 55.00 56.00 57.00 58.00 59.00 60.00 61.00 62.00 63.00 64.00 65.00 66.00 67.00 68.00 69.00 70.00 71.00 72.00 73.00 74.00 75.00 76.00 77.00 78.00 79.00 80.00 81.00 82.00 83.00 84.00 85.00 86.00 87.00 88.00 89.00 90.00 91.00 92.00 93.00 94.00 95.00 96.00 97.00 98.00 99.00 100.00